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**Date:** 6/24/2013

**GAIN Report Number:** 13022

## **China - Peoples Republic of**

### **Dairy and Products Semi-annual**

#### **Dairy**

**Approved By:**

Michael Riedel

**Prepared By:**

Ryan R. Scott and Zhang Jianping

**Report Highlights:**

China's 2013 fluid milk production shows an increase of 270,000 tons to reach 34.65 million tons as genetic improvements and improved feed nutrition boost output. The revised estimate for China's 2013 fluid milk imports, expected to increase by 33 percent to 150,000 tons, support U.S. fluid exports, which have jumped from 43 tons in 2010 to nearly 2,750 tons in 2012. China's 2013 nonfat dry (NFD) milk production is forecast to remain unchanged at 58,000 tons, while whole milk powder (WMP) production is increased by one percent to 1.22 million tons. China's 2013 NFD imports are lowered to 185,000 tons due to price competition with WMP, and WMP imports are raised to 480,000 tons as a result of continued growth in consumer demand. [Note: This report was submitted after the due date because of technical issues in the GAIN system.]

**Commodities:**

Dairy, Milk, Fluid

Dairy, Milk, Nonfat Dry

Dairy, Dry Whole Milk Powder

**Author Defined:****Fluid milk PS&D Table**

Dairy, Milk, Fluid China	2011		2012		2013		
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Cows In Milk	7,620	7,620	8,000	8,000	8,400	8,400	(1000 HEAD)
Cows Milk Production	30,700	30,700	32,500	32,600	34,380	34,650	(1000 MT)
Other Milk Production	1,280	1,280	1,350	1,360	1,426	1,450	(1000 MT)
Total Production	31,980	31,980	33,850	33,960	35,806	36,100	(1000 MT)
Other Imports	41	41	78	94	100	150	(1000 MT)
Total Imports	41	41	78	94	100	150	(1000 MT)
Total Supply	32,021	32,021	33,928	34,054	35,906	36,250	(1000 MT)
Other Exports	25	25	28	27	30	30	(1000 MT)
Total Exports	25	25	28	27	30	30	(1000 MT)
Fluid Use Dom. Consum.	12,600	12,600	13,460	13,517	14,350	14,450	(1000 MT)
Factory Use Consum.	19,396	19,396	20,440	20,510	21,526	21,770	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	31,996	31,996	33,900	34,027	35,876	36,220	(1000 MT)
Total Distribution	32,021	32,021	33,928	34,054	35,906	36,250	(1000 MT)
CY Imp. from U.S.	0	0	0	3	0	6	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD		0		0		0	
Comments							
AGR Number							
Comments To Post							

(The data noted above is not official USDA data. For USDA data visit: <http://www.fas.usda.gov/psdonlineonline>)

**Production:**

The Office of Agricultural Affairs in Beijing (OAA/Beijing) modified its initial estimate for China's 2013 fluid milk production forecast to 34.65 million tons, an increase of 270,000 tons. Milk output has benefitted from genetic improvements (subsidized by the government) and better feed nutrition, including growing alfalfa imports. (Please see Trade Section for alfalfa imports.) In 2012, China's Central Government subsidized the purchase of high-quality frozen bull semen (used for artificial insemination) for every dairy cow. In addition, China's Ministry of Finance provided an RMB500 (nearly \$82) payment to farmers for dairy cows that met certain yield tests. These payment programs are expected to continue in 2013.

**Prices:**

Rising feed and labor costs have been influencing a rise in China's farm gate milk prices since August 2012. For example, China's average farm gate price for corn was \$2.46 per kilogram in 2012, which is seven percent higher than 2011. [Note: Although China's alfalfa production for commercial use is

increasing (totaling nearly 600,000 tons in 2012, according to sources), alfalfa feed is mainly purchased by large-sized dairy farmers (1,000 head and more) due to its high price. Small to medium sized farms mainly use corn silage in their animal feed mixtures.]

### **Consumption:**

OAA/Beijing adjusted its estimate for China's 2013 fluid milk consumption at 14.5 million tons, an increase of 200,000 tons, based on stronger consumer demand for pasteurized and ultra high temperature (UHT) milk, yogurt and lactose beverages and drinks.

### **Policy:**

Trade sources note that concerns have quieted over China's revised import requirements for breeding cattle pedigrees, which became effective on January 1, 2013. To date, China's breeding cow imports from Australia have increased by 25 percent to over 15,000 head and from New Zealand by 13 percent to more than 9,600. For details on these import requirements, please review the Trade Policy Section in the following report:

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Annual\\_Beijing\\_China%20-%20Peoples%20Republic%20of\\_9-23-2012.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Annual_Beijing_China%20-%20Peoples%20Republic%20of_9-23-2012.pdf)

### **Trade:**

#### **Imports:**

OAA/Beijing raised its initial forecast for China's 2013 fluid milk imports to 150,000 tons, an increase of 50,000 tons, largely due to rising consumer demand for imported fluid milk products. From January-March 2013, China's fluid milk imports rose 138 percent over the same period last year. Germany, China's top supplier, enjoys the lowest export unit price at nearly \$870 per ton, compared to Australia at \$1,170, New Zealand at \$1,770 and the United States at \$1,352.

There are several U.S. products in the Chinese market, including UHT products called Mera 350 and Yusa as well as organic milk products from Organic Valley and Westby Cooperative Creamery. Exports of U.S. fluid milk to China jumped from 43 tons in 2010 to nearly 2,750 tons in 2012, attributable to strong e-commerce and hypermarket sales. E-commerce, online shops can save marketing promotion fees, which are normally requested by local supermarkets or hypermarkets. Online shops also offer home delivery, which is also convenient. These factors, combined with recent re-appreciation of the Chinese currency against the U.S. dollar have made U.S. fluid milk exports to China more competitive.

#### **Exports:**

OAA/Beijing's estimate for China's 2013 fluid milk exports remains unchanged at 30,000 MT. From January-March 2013, China's average export unit price increased by eight percent to nearly \$900 per ton. Sources indicate that China's exports to Hong Kong, its largest fluid milk importer, will be constrained by the appreciation of China's currency against the Hong Kong dollar. As a result, consumers in Hong Kong may be unwilling to purchase products from China at higher prices. China's 2012 fluid milk export figure is revised at 27,000 tons due to official trade data.

### **Alfalfa Imports [Harmonized System (HS) Code: 121490]:**

China's 2012 alfalfa imports increased by 59 percent to 460,244 tons compared to the same period in 2011. The United States is the largest supplier, accounting for 60 percent at 442,170 tons (valued at nearly \$174 million). During an alfalfa conference in China, traders and producers noted the consistency of high quality U.S. alfalfa and its convenience in handling and transportation.

### **Nonfat dry PS&D Table**

Dairy, Milk, Nonfat Dry China	2011		2012		2013		
	Market Year Begin: Jan		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	56	56	57	57	58	58	(1000 MT)
Other Imports	130	130	195	168	230	185	(1000 MT)
Total Imports	130	130	195	168	230	185	(1000 MT)
Total Supply	186	186	252	225	288	243	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumption	186	186	252	225	288	243	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	186	186	252	225	288	243	(1000 MT)
Total Use	186	186	252	225	288	243	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
Total Distribution	186	186	252	225	288	243	(1000 MT)
CY Imp. from U.S.	21	21	28	18	0	18	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD		0		0		0	

(Data included in this report is not official USDA data. For USDA data, please visit <http://www.fas.usda.gov/psdonlineonline>)

### **Production:**

OAA/Beijing's estimate of China's 2013 nonfat dry (NFD) milk production remains unchanged at 58,000 tons due to flat demand for NFD products. [Note: In China, nonfat dry milk is the cheaper substitute for whole milk powder (WMP). There is minimal investment in NFD milk production plants. Demand for NFD milk products is largely driven by market prices for WMP products. Processors switch to NFD milk when imported WMP prices reach higher-than-normal levels.]

### **Consumption:**

OAA/Beijing lowered its estimate for China's 2013 NFD milk consumption to 243,000 MT, a decrease of 45,000 tons, largely due to price competitiveness between China's current export unit price for NFD products at \$3,440 per ton and WMP (the preferred product) at \$3,325 per ton.

### **Imports:**

China is a net importer of NFD milk. OAA/Beijing reduced its estimate for China's 2013 NFD milk imports by nearly 20 percent to 185,000 tons, due to the current whole milk powder price advantage. New Zealand is China's lead supplier of NFD milk, followed by the United States.

## Whole milk powder PS&D Table

Dairy, Dry Whole Milk Powder China	2011		2012		2013		
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013		
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post	
Beginning Stocks	80	80	50	50	60	60	(1000 MT)
Production	1,100	1,100	1,155	1,160	1,210	1,220	(1000 MT)
Other Imports	320	320	365	406	410	480	(1000 MT)
Total Imports	320	320	365	406	410	480	(1000 MT)
Total Supply	1,500	1,500	1,570	1,616	1,680	1,760	(1000 MT)
Other Exports	9	9	10	9	11	9	(1000 MT)
Total Exports	9	9	10	9	11	9	(1000 MT)
Human Dom. Consumption	1,433	1,433	1,493	1,535	1,613	1,695	(1000 MT)
Other Use, Losses	8	8	7	7	6	6	(1000 MT)
Total Dom. Consumption	1,441	1,441	1,500	1,542	1,619	1,701	(1000 MT)
Total Use	1,450	1,450	1,510	1,551	1,630	1,710	(1000 MT)
Ending Stocks	50	50	60	60	50	50	(1000 MT)
Total Distribution	1,500	1,500	1,570	1,611	1,680	1,760	(1000 MT)
CY Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
CY. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
TS=TD		0		-5		0	

(Data included in this report is not official USDA data. For USDA data, please visit <http://www.fas.usda.gov/psdonlineonline>)

### Production:

OAA/Beijing revised its 2013 forecast for whole milk powder (WMP) production up slightly to 1.22 million tons due to additional fluid milk supplies.

### Consumption:

China's 2013 WMP consumption is adjusted up by 5 percent to 1.7 million tons mainly due to larger imports. [Note: The majority of Chinese consumers purchase imported infant formula because of ongoing concerns over the safety of domestic products. Please see the Policy Section to learn about restrictions on purchasing infant formula for China destination travelers.]

### Prices:

According to China's Ministry of Commerce, on March 1, 2013, the retail price for imported infant formula was RMB202.21 (nearly \$32.60) per kilogram. Meanwhile, the retail price for domestic infant formula was RMB154.91 (almost \$25.00) per kilogram.

### Trade:

#### Imports

China's 2013 WMP imports are forecast to reach 480,000 MT. OAA/Beijing is monitoring any potential impact from new import requirements implemented on May 1, 2013. (Please see the Policy Section below.)

**Exports:** OAA/Beijing lowered its forecast for China's WMP 2013 exports by more than 18 percent to 9,000 MT. This downward revision is attributed to China's currency appreciation against the U.S. dollar, which is a significant factor in the recent spike up in China's export unit price of nearly \$4,718 per ton. OAA/Beijing will continue to monitor and report on China's export prospects with top markets, such as Hong Kong and Myanmar.

**Policy Changes for all Dairy Products:**

1. China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and the United States government, through the efforts of multiple agencies, including the U.S. Department of Agriculture, Food and Drug Administration, and the Office of U.S. Trade Representative, revised the U.S. export health certificate for cow milk products to China. The certificate became effective on January 18, 2013; for the first time, U.S. colostrums are included.

2. On May 1, 2013, AQSIQ implemented Decree 152 "Administrative Measures on Inspection, Quarantine and Supervision of Import and Export of Dairy Products" via Announcement 53 "Requirements Related to the Implementation of Administrative Measures for Inspection, Quarantine and Supervision of Imported and Exported Dairy Products". Please refer to the link below for detailed information on Decree 152. An unofficial translation of Announcement 53 will be submitted in a separate GAIN report.

[http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Regulation%20on%20Inspection%20and%20Quarantine%20of%20Imp%20and%20Exp%20Dairy%20Product\\_Beijing\\_China%20-%20Peoples%20Republic%20of\\_2-8-2013.pdf](http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Regulation%20on%20Inspection%20and%20Quarantine%20of%20Imp%20and%20Exp%20Dairy%20Product_Beijing_China%20-%20Peoples%20Republic%20of_2-8-2013.pdf)

[Important Note: Section 3 of Article 11 states that "dairy product import for the first time should provide test reports for the items listed in the national (GB) standard for food safety related dairy products. "Import for the first time" is defined as an import product from the same processing plant in a foreign country, product name, ingredient list, exporter, importer, and entry port.]

3. On March 1, 2013, Hong Kong restricted the transport of infant formula by China destination travelers to 1.8 kilograms. Violators could be fined as high as 500,000 HK Dollars and placed in jail for two years. Since implementation of the new measure, several mainland violators have been fined HKD5000. New Zealand, Australia, and the United Kingdom have also imposed similar infant formula purchase constraints. As noted above, for Chinese consumers, domestic infant formula is considered riskier than imported or foreign-purchased formula, so they prefer to purchase large amounts when abroad.

4. As of January 1, 2013, China announced the reduction of the import tariff for special infant formula from 10 percent to 5 percent, including milk protein partial hydrolysate formula, milk protein deep hydrolysate formula, and the amino acid composition of special infant milk powder. This formula is targeted at newborn babies with health issues; the change is not expected to impact large import volumes of dairy products.